



DEPARTMENT OF CHILDREN AND FAMILIES

OFFICE OF INSPECTOR GENERAL INTERNAL AUDIT

Enhancing Public Trust in Government



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Assurance Report

Evaluating Compliance with Requirements for Lead Agency Subcontract Monitoring

Summary

In accordance with the Office of Internal Audit's fiscal year (FY) 2011-12 annual work plan, we conducted an audit of lead agency¹ oversight of the Department's subcontracts.² The audit focused primarily on lead agencies' development of written subcontract monitoring procedures and compliance with the State and Federal audit requirements. Our methodology included an examination of monitoring procedures as well as practices recorded in lead agency subcontract monitoring reports and related documents.

The audit disclosed the following opportunities for improving subcontract monitoring:

- Provide lead agencies a basic structure for subcontract monitoring procedures.
- Require the development of written subcontract monitoring procedures for the CBC Readiness Assessment to ensure completion before the effective date of the contract.
- Ensure that all subcontracts include the Financial and Compliance Audit Attachment.
- Strengthen subcontractor compliance with single audit requirements immediately by implementing guidance included in finding 3 of this report when reviewing CPA³ audits. Add this guidance to lead agency subcontract monitoring procedures.
- Require lead agency monitoring staff to attend training on financial and compliance audit requirements.
- Document subcontractors' submission of Florida Single Audit reports to the Auditor General or receipt of certifications that an audit was not required.
- Ensure that amended and new subcontracts include the May 6, 2011 revised Financial and Compliance Audit language.

This report discusses in further detail these and other issues affecting the efficiency and effectiveness of subcontract monitoring by lead agencies.

¹ Lead agencies are contracted not for profit or governmental community-based care providers responsible for the provision of support and services for eligible children and families through the coordination, integration and management of local systems and organizations.

² Subcontract means any contract entered into by a subcontractor to furnish supplies or services for performance of a prime contract or a subcontract. Community-Based Care Services Contract Template, Attachment I, Section B., Manner of Service Provisions.

³ Certified Public Accountant

Background

The Department of Children and Families (Department) contracts with Community-Based Care (CBC) Lead Agencies to provide protective care and child welfare services⁴ for vulnerable children and their families. Consequently, lead agencies may subcontract some services from specialized providers. The success of subcontracts is integral to the effectiveness of the community-based care process.⁵ As of August 2011, contracts with 20 lead agencies totaled \$754 million for FY2011-12.⁶ Although lead agencies may subcontract some services to other providers, they are responsible for service delivery, monitoring, and quality assurance of their subcontractors. Lead agencies are also responsible for ensuring that subcontractors comply with all applicable state and federal regulations and operating procedures. The outsourcing of family services warranted development of some and reinforcement of other initiatives to ensure lead agency compliance with State and Federal administrative, expenditure and programmatic guidelines, such as including performance measures in contracts.

Initiatives

Department Oversight

The Department has several integrated contract oversight activities in place to ensure that lead agencies provide quality services while meeting contract terms and conditions.

The Department assigns a trained **contract manager** to each contract. The contract manager is responsible for enforcing compliance with administrative and programmatic contract terms and conditions. The contract manager is the primary point of contact through which all contract action and information flows between the Department and the contractor/lead agency. This position is responsible for day-to-day contract oversight, including approval of contract deliverables and invoices. In addition, contract managers review independent audit reports of the contractor's financial statements and Single Audits. They should ensure that the Department's Single Audit Unit receives an electronic copy of single audits and management letters.⁷ The contract manager maintains the official contract files which should be routinely reviewed by the regional contract administrator to ensure necessary documentation is being properly maintained.

The Department's **Contract Oversight Unit (COU)**⁸ monitors and evaluates provider compliance with terms and conditions of contract(s) that provide specific services for the Department. The unit determines whether providers are meeting requirements or delivering services in accordance with administrative and programmatic standards defined in the

⁴ Includes, but is not limited to, family preservation, independent living, emergency shelter, residential group care, foster care, therapeutic foster care, intensive residential treatment, foster care supervision, case management, post placement supervision, permanent foster care, and family reunification. Section 409.1671, Florida Statutes (F.S.)

⁵ Community-Based Care Lead agency Subcontracting Guidelines, 9/12/2005.

⁶ Administrative Services Budget Community-Based Care Schedule of Funds, FY2011-12.

⁷ Single_Audit@dcf.fl.us

⁸ Section 402.7305, F.S., Children and Families Operating Procedure (CFOP) 75-8. See Attachment 1.

Department's contract, attachments, policy, Florida Statutes (F.S.), Florida Administrative Code (F.A.C.), federal laws and regulations. Contract monitors observe, record, and report to the contract manager and program management any information necessary for improving contract compliance.

The Department's **Quality Assurance Unit**, in the Family and Community Services Program, conducts periodic external reviews to assure that the agreed upon level of services is achieved and maintained by lead agencies and subcontractors. It is a process by which the Department reviews the effectiveness and the quality of services provided to meet client needs. Quality assurance activities assess compliance with contract requirements, state and federal law, relevant administrative rules, regulations, operating procedures; and validate quality improvement systems and findings.

The Department's **Fiscal Monitoring Unit** performs financial oversight, monitoring and testing of contracted providers or lead agencies' fiscal operations for adherence to generally accepted accounting principles and regulations regarding appropriate use of funds.⁹ Fiscal Monitoring includes conducting ongoing reviews of financial stability, analyzing financial statements, assessing financial risks, validating invoicing processes and supporting documentation. Fiscal monitors also determine the integrity of accounting and subcontract monitoring policies and procedures, and test financial transactions. Fiscal Monitoring reports on financial noncompliance, fiscal standing and policy related concerns are provided to the CBC Lead Agencies' management and the Department's contract manager.

The Department's **Single Audit**¹⁰ **Unit** provides accountability in the contracting process by reviewing single audit reports of the Department's contractors for compliance with State and Federal Single Audit requirements. The Single Audit Unit notifies the contractors, contract and program managers and independent auditors of financial discrepancies, noncompliant practices, questioned costs and any necessary follow-up actions.

The most recent oversight activity was initiated on January 11, 2012, when the Department and the Florida Coalition for Children (FCC) unveiled a "**Scorecard**" targeted at measuring the success of the 20 community-based care lead agencies on 12 key measures. The most critical needs of at-risk children will be monitored monthly to determine how well lead agencies are performing regarding safety, prevention, family preservation, foster care, adoption, well-being and independent living services. The goal is to highlight areas of success and identify areas for improvement to ensure the system achieves its ultimate goal of keeping kids safe and building strong families.¹¹ Subcontractor performance will have a significant impact on the outcome of the measures.

⁹ Community-Based Care Services Contract Template.

¹⁰ Single audit means an audit conducted by an independent certified public accountant consisting of the contractor's financial statements and additional required reports on Federal awards and State Financial Assistance. The Single Audit Act, both federal and state, is designed to allow for one independent audit of an entity's financial condition on which all interested parties can rely. Source: Section 215.97, Florida Statutes (F.S.), Florida Single Audit Act and Office of Management and Budget (OMB) Circular A-133, Federal Single Audit Act.

¹¹ DCF Press Release January 11, 2012. www.dcf.state.fl.us/programs/cbc/cbccaccountability.shtml

Auditor General Oversight

The Auditor General performs ongoing reviews of a sample of audit reports submitted by non-state entities that met the Florida Single Audit Act (FSAA) audit threshold.¹² Their objective is to determine compliance with financial audit and certified public accountant reporting requirements regarding State financial assistance provided to non-state entities (lead agencies and subcontractors) to carry out state projects. Non-state entities are required to provide the Auditor General and the non-state entity that provided the state financial assistance an electronic copy of each audit prepared in accordance with the FSAA. If a non-state entity fails to have a Florida Single audit conducted, the State awarding agency or non-state entity may take appropriate corrective action to enforce compliance.¹³

Lead Agency Oversight

The Department's contracts with lead agencies indicate the following regarding subcontracts. The lead agency:

- Shall be responsible for service delivery, monitoring, quality assurance and compliance with the regulations applicable to all subcontracts entered into by the lead agency, such as the Financial and Compliance Audit requirements.
- Shall develop written procedures for monitoring of subcontracts. These procedures shall be approved by the Department and available upon request to the Department and to state and federal auditors.
- Shall have quality assurance/quality improvement plans for subcontractors.
- Shall establish and maintain an internal quality improvement process to assess its performance and that of its subcontractors.
- Accepts its responsibility for all work required under this contract whether performed with its own resources or under an approved subcontract.¹⁴
- The Lead Agency shall monitor the performance of its subcontractors; conducting follow-up actions in accordance with the Department approved Subcontract Monitoring Plan.

Overarching Observation: It appears that the Department does not review Single Audits or CPA Financial Statement Audit reports of subcontractors.

Compliance Testing

Subcontract monitoring procedures provided by the twenty lead agencies were evaluated using applicable sections of the Community-Based Care Services Contract Template, as well as Federal and State auditing regulations.

¹² Each non-state entity that expends a total amount of state financial assistance equal to or in excess of \$500,000 in any fiscal year of such non-state entity shall be required to have a state single audit, or a project-specific audit, for such fiscal year in accordance with the requirements of section 215.97, F.S.

¹³ Section 215.97, F.S., Florida Single Audit Act, and Section 10.657(2), Rules of the Auditor General.

¹⁴ Department of Children and Families Intranet: Fiscal Year 2011-12 CBC Services Contract Template

Findings and Recommendations

Finding 1: Lead agencies did not have basic written guidelines for developing subcontract monitoring procedures.

The Department's standard contract template for community-based care (CBC) services states the following in part, regarding subcontracts:

"The Lead Agency shall be responsible for service delivery, monitoring and quality assurance of all subcontracts entered into by the Lead Agency under this contract. The Lead Agency shall develop written procedures for monitoring of subcontracts. These procedures shall be approved by the Department...."¹⁵

As a business practice, procedures are established or prescribed actions to be followed routinely to accomplish an end, process or operation. Subcontract monitoring procedures could ensure that subcontracts are adequately examined to mitigate risk, provide assurance of quality service and establish consistency. We found subcontract monitoring procedures written in various levels of detail that range from general to specific, minimal to extensive. For example, the number of pages ranged from four to 107. Irrespective of contractual language requiring all lead agencies to develop written subcontract monitoring procedures, as a whole, lead agencies did not establish a basic structure to ensure consistency in monitoring.

The mandate above appeared in the Department's contracts with lead agencies in 2005; possibly earlier.¹⁶ The last subcontract monitoring procedures were approved by the Department this fiscal year after our audit began even though, subcontracts had been executed. As lead agencies change and managing entities¹⁷ are established, subcontract monitoring guidelines could be effective for developing procedures. We **recommend** that the lead agency contract manager's work together to coordinate a basic structure for subcontract monitoring procedures to improve quality and consistency state-wide. The approved subcontract monitoring procedures could be made accessible on the intranet at the "Family Safety Repository" site where CBC related documents are stored. We **recommend** that the CBC Readiness Assessment Tool require the development of written subcontract monitoring procedures for new lead agencies. This would ensure that subcontract monitoring procedures are established before, rather than after, contract execution. The Child Welfare staff should revise the CBC Services Contract Template, accordingly.

Finding 2: The standard Financial and Compliance Audit Attachment was not in every subcontract.

Lead agency subcontracts must be negotiated to adopt the applicable terms of the provider/lead agency contracts with the Department. Contract managers are responsible for conveying and enforcing the appropriate audit requirements to providers/lead agencies.

¹⁵ CBC Services Contract Template, Attachment I, section B.2.d. FY2011-12

¹⁶ Department of Children and Families Intranet: Child Welfare Repository.

¹⁷ Local level nonprofit entity & management system of community-based substance abuse and mental health recovery services.

We found that some subcontracts did not include the required Financial and Compliance Audit Attachment in the Department's contracts and subcontracts. The Attachment informs contractors that they may be subject to monitoring as well as Federal and State Single Audit requirements. We **recommend** that lead agencies ensure that all of their subcontracts include the Financial and Compliance Audit Attachment. We also **recommend** that the Department verify that subcontracts contain the audit attachment.

Finding 3: Subcontract monitoring procedures regarding conformance with financial and compliance audit requirements could be strengthened.

Lead agencies are required to structure their subcontract monitoring procedures in a way that ensures the satisfactory delivery of services as well as the appropriate expenditure of funds.¹⁸

The Financial and Compliance Audit Attachment included in lead agency contracts¹⁹ requires the lead agency to determine if their providers are subject to Federal and State Single Audits. Subcontractors should consider all sources of Federal awards and State financial assistance in determining the threshold for a Single audit. The Federal Single Audit requires State, local government or non-profit organizations that expended at least \$500,000 in Federal awards during their fiscal year to provide the single audit.²⁰

Non-state entities that expended at least \$500,000 in state financial assistance during their fiscal year are required to have a State single audit conducted in accordance with section 215.97, F.S.²¹

Single audits, both Federal and State; differ from financial statement audits in that they include additional required reports on Federal awards and State financial assistance.

Single audit reports must include:²²

- A CPA's opinion as to whether the financial statements are presented fairly in conformity with generally accepted accounting principles,
- A CPA's opinion as to whether the schedule of expenditures of federal awards and state financial assistance were presented fairly in relation to the financial statements taken as a whole,
- A report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements,

¹⁸ Community-Based Care Services Contract Template.

¹⁹ Financial and Compliance Audit Attachment, Fiscal Year 2011-12 Community-Based Care Services Contract Template.

²⁰ See footnote 8.

²¹ Section 215.97, F.S. and Chapters 10.550 (local governmental entities) or 10.650 (nonprofit and for-profit organizations), Rules of the Auditor General.

²² Federal Office of Management and Budget, Circular A-133, Section 215.97, F.S. and Chapters 10.550 (local governmental entities) or 10.650 (nonprofit and for-profit organizations), Rules of the Auditor General.

- An opinion on compliance with laws and regulations and internal control over compliance applicable to each major federal program and/or state projects,
- A management letter as prescribed by the rules of the Auditor General, (State only)
- A schedule of expenditures of federal awards and/or state financial assistance and,
- A schedule of findings and questioned costs,
- A summary schedule of prior audit findings,
- A plan for corrective action to eliminate significant audit findings related to state financial assistance and federal awards or a statement describing reasons that corrective action is not necessary.

We found that subcontractor monitoring procedures did not always address Financial and Compliance Audit requirements. We also found instances where lead agencies accepted independent CPA audit reports on financial statements²³ when single audits were required. Consequentially, lead agencies would not be informed of audit findings related to Federal awards and State financial assistance and would not ensure that corrective action was taken. Training could help lead agency subcontract monitors ensure subcontractor compliance with audit requirements. We **recommend** that the lead agency subcontract monitoring staff attend financial and compliance audit training.

As an immediate measure for strengthening the review of single audit reports prepared by independent CPAs, we **recommend** that lead agencies add the following to their subcontract monitoring procedures.

- Review the provider's current independent CPA audit report.²⁴ Determine whether or not each \$500,000 threshold was met for Federal and State expenditures by including all sources of Federal awards and State financial assistance. Verify compliance with Federal (OMB Circular A-133) and State (Section 215.97, F.S.) Single audit requirements.
- Ensure that a management decision letter has been issued for audit findings that relate to Federal awards within 6 months of receipt of the audit report. The letter should clearly state whether or not the audit findings are sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other corrective actions. (See OMB Circular A-133.405).
- Ensure that a management letter required by sections 215.97(9)(f) and 215.97(10)(d), F.S. and defined in Rule 10.654(1)(e), for profit or nonprofit non-state entities or section 10.554(1)(i), Rules of the Auditor General for government entities, has been issued. The audit report package should include a written statement of explanation or rebuttal, including corrective action taken, concerning deficiencies cited in the management letter. If there are no items related to State financial assistance required to be reported

²³ If subcontractors do not meet single audit requirements, monitors should review the independent CPA audit report of financial statements and accounting systems. The audit report should include an opinion which can be relied on as verification of whether the books and records were maintained in accordance with generally accepted accounting principles and the internal control system is adequate to support reliance on the existing business records.

²⁴ If the recipient is a State or local government or non-profit organization as defined in OMB Circular A-133 or if the recipient is a nonstate entity as defined by Section 215.97(2), F.S.

in a management letter, the auditor should indicate such in the schedule of findings and questioned costs.

We also **recommend** that the Department add an independent CPA Audit Checklist to the Financial and Compliance Audit Attachment. A checklist could help lead agency staff determine subcontractor compliance with audit requirements. The checklist should be reference in the Financial and Compliance Audit Attachment of the CBC Services Contract Template and maintained on the Department's Contracted Client Services website. In addition, we **recommend** that lead agencies document their review of independent CPA audit reports of subcontractors, related concerns and corrective action plans, and provide a copy of the documentation to the Department's Fiscal Monitoring Team. Both recommendations should be incorporated in lead agency subcontract monitoring procedures.

We observed some subcontract monitoring procedures enhanced by the following information and best practices that could benefit others.

- Section 402.7305(4), F.S., Department's Contract Monitoring Requirements and Process: created for and used by the Contract Oversight Unit as a basis for developing contract monitoring procedures.
- CBC Subcontracting Guidelines: upon which lead agencies agreed to administer subcontracting activities.²⁵
- Pre-monitoring checklists of documents to examine prior to a site visit.
- Electronic monitoring tools to increase efficiency.
- PowerPoint presentation of the Contract Monitoring Process to inform new providers of objectives, steps, contractual obligations related to monitoring.

OMB Circular A-133 increased the expenditure threshold requirement for a single audit from \$300,000 to \$500,000 for fiscal years ending after December 31, 2003. However, some monitoring procedures and tools had not been updated. We **recommend** that lead agencies ensure their contract monitoring procedures and tools have been updated to reflect the current expenditure threshold of \$500,000 of Federal Awards and State financial assistance to meet the single audit requirement.

Effective May 6, 2011, the Financial and Compliance Audit Attachment for lead agency contracts was revised to include the following directive: Recipients of new and amended contracts, that expend less than \$500,000 in Federal Awards or State financial assistance during their fiscal year must provide certification to the Department's Single Audit Unit and its contract manager that a single audit was not required.²⁶ We found some contracts that had been amended since May 6, 2011, but did not incorporate the revised Audit Attachment language. We **recommend** that contract managers ensure that new and amended lead agency contracts, subcontracts, as well as contract monitoring procedures include the revised Financial and Compliance Audit language.

²⁵ CBC Services Contract Template, Attachment I.

²⁶ Department of Children and Families, Office of Contracted Client Services, Contract Directives for Administration (CDA 11-20) and Contract Audit Attachment Form CF 1120 amended and effective May 6, 2011.

Finding 4: Lead agencies did not always ensure that applicable subcontractors submitted a Florida Single Audit report to the Auditor General.

As stated earlier in this report, section 215.97, Florida Statutes, requires each non-state entity that expends at least \$500,000 in State financial assistance in any fiscal year to have a Florida (State) Single Audit conducted and submitted to the lead agency/non-state entity that provided the State financial assistance and the Auditor General.

We found that neither lead agencies nor the Auditor General ensure receipt of State single audits from all non-state entities that meet the expenditure threshold. Furthermore, there is no requirement for non-state entities to certify that an audit was not required because the expenditure threshold was not met.

We **recommend** that lead agencies ensure that applicable subcontractors provide a copy of the State single audit report to them, as well as to the Auditor General and that they maintain documentation of compliance or non-applicability. Lead agencies should include this practice in their subcontractor monitoring procedures to provide greater assurance of compliance with pertinent Florida statutes, Rules of the Auditor General and contract provisions.

Finding 5: The credibility, accountability and professionalism of some subcontract monitoring and monitoring procedures could be improved.

As we reviewed subcontract monitoring procedures, we made several general observations related to their appearance and structure that could lead to questions about their validity and reliability. For instance, some were not dated or signed. Best business practices indicate that authorized procedures should be thorough, referenced and documented with appropriate signatures and dates.

We **recommend** that the Department ensure that lead agencies follow the administrative guidelines below to improve accountability, credibility and professionalism.

- Subcontract monitoring procedures should include the entire monitoring process and should be officially signed, dated and numbered for reference purposes.
- Approved subcontract monitoring procedures should be followed.
- Subcontract monitoring tools/work papers should be signed and dated upon completion to document the sequence of events.
- Subcontract monitoring reports should be signed and dated upon completion as a basis for determining when a corrective action plan is due.
- Subcontract should have assigned numbers for reference.
- Subcontract should be signed by both parties before services are rendered.
- Subcontract monitoring work papers should document performance of and compliance with established monitoring procedures.
- Monitoring reports should document findings, including deficiencies that should be corrected.
- Corrective actions should be requested and followed-up on through resolution.

- Maintain organized subcontract monitoring work papers.
- Quality Assurance and Quality Improvement Plans should be dated.

Finding 6: The Department could not provide assurance that all subcontractors had been identified.

The Department's mission is to protect and promote strong families. The mission is supported by Federal and State funding that is passed through the Department to lead agencies that usually passed it to subcontractors that provide direct service to clients. Inquiries revealed that the Department does not have a listing of all subcontractors, thus it may not know who all their subcontractors are, how many exist or how much funding they receive from lead agencies. A subcontractor database of service providers that are contracting with the Department's lead agencies could be valuable information for management and staff. It is appropriate for the Department to have ready access to knowledge regarding its service providers.

We **recommend** that the Family and Community Services and Contracted Client Services staff work together to create a database of all lead agency subcontractors and their related contract information, such as contract amount, period, and the lead agency that provided their funding. Contract managers could maintain the subcontractor information and keep it current. The database should be available on the intranet where community-based care related documents are stored.

Purpose and Objective

In accordance with the Office of Internal Audit's FY 2011-12 annual work plan we conducted an audit of the Department's Community-Based Care Lead Agencies' monitoring of subcontracts. This topic was selected for review due to concerns expressed by management during Internal Audit's most recent risk assessment process

The **objective** of this audit is to determine whether or not lead agencies are complying with contract requirements regarding subcontract monitoring procedures.

Scope and Methodology

This audit focuses primarily on subcontractor monitoring procedures and related activity that occurred during fiscal years that ended 6/30/10 through 12/2011.

To meet our audit objective, we performed the following:

- Researched governing laws, rules and related literature;
- Interviewed appropriate Department and lead agency Management and staff;

- Reviewed applicable contracts, fiscal monitoring and contract oversight reports, lead agency subcontractor monitoring procedures, reports and related documents, and financial audit reports. Performed test work, as necessary.

Acknowledgements

The Office of Inspector General would like to thank the management and staff of the Department's Office of Child Welfare, Family and Community Services Office, Fiscal Monitoring Team and lead agencies for their assistance with this audit.

Management's Response

In accordance with s. 20.055(5) (d), F.S., Management's response to the preliminary and tentative audit findings is included as Attachment 2 to this report.

This audit was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, published by the Institute of Internal Auditors. The audit was conducted by Renea Alexander and Joel Bengo under the supervision of Jerry Chesnutt, Director of Auditing, (850) 488-8722.

This report is available on our website: http://www.dcf.state.fl.us/admin/ig/pubs_ia.shtml

Attachment 1

Excerpt from Section 402.7305(4), F. S. Department of Children and Family Services; procurement of contractual services; contract management.

(4) Contract Monitoring Requirements and Process. – The department shall establish contract monitoring units staffed by career service employees who report to a member of the Selected Exempt Service or Senior Management Service and who have been properly trained to perform contract monitoring.... The department shall establish a contract monitoring process that includes, but is not limited to, the following requirements:

- (a) Performing a risk assessment at the start of each fiscal year and preparing an annual contract monitoring schedule that considers the level of risk assigned. The department may monitor any contract at any time regardless of whether such monitoring was originally included in the annual contract monitoring schedule.
- (b) Preparing a contract monitoring plan, including sampling procedures, before performing onsite monitoring at external locations of a service provider. The plan must include a description of the programmatic, fiscal, and administrative components that will be monitored on site. If appropriate, clinical and therapeutic components may be included.
- (c) Conducting analyses of the performance and compliance of an external service provider by means of desk reviews if the external service provider will not be monitored on site during a fiscal year.
- (d) Unless the department sets forth in writing the need for an extension, providing a written report presenting the results of the monitoring within 30 days after the completion of the onsite monitoring or desk review.
- (e) Developing and maintaining a set of procedures describing the contract monitoring process.

History.—s. 1, ch. 2005-222; s. 45, ch. 2006-1; s. 32, ch. 2010-151; s. 3, ch. 2010-158; s. 30, ch. 2011-4.